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SUBJECT: CZECH POLITICAL DEJA VU: KLAUS, CORRUPTION, AND BACKROOM
DEALS

REF: PRAGUE 973

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ACCORDINGLY.

¶1. (SBU) Summary: The "cucumber season," as the slow summer season is known in Czech politics, has come to an abrupt end with new allegations of high-level corruption, as well as rising tensions within the Green Party - and to a certain extent the coalition - after the firing of one of the Greens' ministers. Early jockeying for the upcoming presidential election also added a few weeks' worth of drama in September, but the drama seems to have a foregone conclusion: the reelection of President Vaclav Klaus. While relations between PM Topolanek and CSSD leader Paroubek remain as sour as ever, both appear to be inching toward some version of a political cease-fire. A deal between the two could bring Paroubek the coveted speaker's chair in the lower house of the Czech parliament, in exchange for CSSD acquiescence - rather than outright support - to ODS priorities like further reforms, missile defense, and smooth EU presidency in 2009. End Summary.

Three Prime Ministers Under Scrutiny

¶2. (SBU) In the past few weeks, Czech political circles have been seized with stories about questionable financial dealings of several leaders in both major parties, ODS and CSSD. PM Topolanek has been in the headlines because of the less than transparent arrangements concerning a Volvo SUV, which he has been seen driving for well over a year. After initial obfuscations, Topolanek revealed that he had borrowed the car initially and that his partner, Lucie Talmanova (ODS, Deputy Speaker of the lower house of the parliament), bought the car in the summer. Unsatisfied with this explanation, Czech media continued to pursue "Volvogate" for several weeks, especially given the apparent involvement of Marek Dalik, Topolanek's ubiquitous and unofficial adviser, fixer, and the current eminence grise of ODS politics. While the controversy is unlikely to weaken Topolanek significantly, it has sapped some of the momentum he gained from the passage of the reform package in August (reftel). It has also derailed his efforts to patch up his relations with the Czech press, which began in early September with regularly scheduled press conferences and even chocolates being distributed to the press corps. The chocolates have since disappeared, only to be replaced by invectives and accusations from Topolanek that the press was vindictive, corrupt, and Paroubek's attack dogs.

¶3. (SBU) In the meantime, CSSD has faced its own share of probing questions regarding the less than transparent finances of its two former prime ministers and party leaders - Jiri Paroubek and Stanislav Gross. Paroubek's personal income became an issue because his basic salary as a deputy in the Czech parliament barely seems to cover his home loans, car payments, and living expenses. The story continues to be fueled by Paroubek's creative accounting and explanations, some of them contradictory. At one point, Paroubek's CSSD colleagues even offered to open up their party's

coffers to help out their chairman with living expenses. Paroubek, however, rejected the offer, realizing that such an arrangement would only add to the media and public criticism.

14. (SBU) Topolanek and Paroubek's problems, however, pale in comparison to those of Stanislav Gross, who was forced to step down as prime minister in 2005 over corruption allegations. Gross, who has worked for a law firm over the past two years, has apparently failed to learn from his ignoble departure from high-level politics.

A public and political furor erupted over his acquisition and a quick sale of shares of Moravia Energo, a Czech energy company. The deal reportedly netted him over 100 million KC (over USD 5 million).

Gross has been unable to explain satisfactorily his new-found wealth, and his investing activities are now being investigated by the anti-corruption unit of the Czech police. Gross' CSSD colleagues have been busy distancing themselves from their former chairman and prime minister, but the incident will undoubtedly impede CSSD's efforts to portray itself as the party that represents and protects the interests of the common people. (Comment: It is encouraging that the Czech press has pursued the three prime ministers' stories with such energy. Corruption in Czech politics is consistently cited by the Czech public as an issue of significant concern. The increased press scrutiny, although an imperfect deterrent, should at the very least put Czech politicians on notice. End Comment.)

The Greens' Short-lived Rebellion

15. (SBU) The early October departure from the cabinet of Education Minister Dana Kuchtova precipitated a public war of words between the different factions within the Green Party (SZ), but proved to be no real threat to the current coalition. Kuchtova, who is a popular leader within the SZ, resigned under pressure from PM Topolanek and others in the coalition principally because she failed to submit an

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acceptable program for EU funding of Czech education and research. However, as Kuchtova's supporters within the SZ would correctly point out, she could not have been forced out without SZ Chairman Martin Bursik's acquiescence and her record with regard to securing EU funding was no worse than that of other ministers. While true, these contentions did not take into account the fact that the Ministry of Education was being mismanaged under Kuchtova to the point of losing a number of managers and experts in various fields, including those with experience in securing and administering EU funds.

16. (SBU) While the SZ rebels initially called for the party to leave the coalition, the party's mini-rebellion ended with little more than an airing of the Greens' dirty laundry. At the October 6-7 meeting of the party's executive committee, Bursik managed to reassert control over his restive, leftist base, and secured continued participation of the SZ in Topolanek's coalition government. Bursik publicly warned that if the SZ were to leave the government, the ODS could turn to CSSD and form a grand coalition or repeat the opposition agreement of the late 1990's, which most Czechs remember as the heyday of political corruption and backroom deals. A grand coalition or a similar arrangement between the ODS and CSSD could also agree to change the country's electoral rules to the disadvantage of smaller parties like the SZ. Such arguments helped Bursik quell the rebellion and push back against arguments from some within his party that he wants to stay in the coalition because he is enamored with the perquisites of power and not because he wants to push the SZ agenda.

17. (SBU) Nevertheless, it is not clear that Bursik emerged stronger from this fight. Some commentators have observed that the constant infighting within the SZ weakens the position of their party's leaders in the coalition. They point to KDU-CSL, the other small party in the coalition, which has stood firmly behind its chairman, Jiri Cunek, who continues to face corruption allegations and who has also been a less than stellar Minister for Regional Development. With his party's backing, Cunek has therefore been safe from serious pressures within the coalition. Bursik has no such luxury, but some speculate that he has been successful at channeling the pressure

from within the coalition to beat back the more militant wing of the SZ. While Bursik has again demonstrated that he continues to have the majority of the SZ behind him, periodic challenges against his leadership will persist. Since this is the SZ's first stint in government and parliament, many of its members are still learning the art of governing and of compromising within a coalition.

Presidential Election Already Decided?

¶18. (SBU) The upcoming presidential election, due to be held in February - March 2008, is beginning to look more and more like a slam dunk for Vaclav Klaus. While the parties opposing Klaus' reelection have floated various names of potential candidates, most of those thus honored quickly withdrew from consideration. Prospective "anti-Klauses," as they were dubbed in the press, simply understood that without solid support from the other four parties in the parliament, they would not get far. The possible entry into the race of the SZ-proposed Jan Svejnar, a prominent economist and professor at the University of Michigan, may make the election at least slightly competitive. CSSD's Paroubek embraced Svejnar last week, after initially rejecting him. The fact that Paroubek failed to find a solid candidate of his own probably prompted this about face. However, gaining support from KSCM and KDU-CSL will be difficult for Svejnar, as Klaus has been carefully cultivating support within those parties for quite some time.

¶19. (SBU) With so little competition, Klaus is almost a shoe-in, and as a result, ODS may not need to expend too much political - and other - capital to secure Klaus' reelection. Given the long-running tensions between Topolanek and Klaus, having Klaus back in the castle may not necessarily represent Topolanek's dream come true, but in this case he has very little choice. According to prominent ODS members, if Klaus were to lose his bid for the presidency, Topolanek in turn would lose the confidence of many Klaus loyalists who remain in the ODS. As a result, Topolanek would probably not survive as ODS chairman and prime minister. However, even with Klaus' reelection, Topolanek's future as prime minister is by no means assured. Many speculate that in a time of crisis, Klaus would turn to the current Prague mayor, Pavel Bem, to take over the reins of government.

CSSD and ODS Rapprochement

¶10. (SBU) What appeared to be a shaky coalition in the early months of its existence, has now stabilized and has even yielded the passage of a tax and public finance reform bill that, although controversial, has fulfilled a key plank in the ODS political program. While Topolanek has thus managed to shore up his position within the coalition and the ODS, Paroubek does not even control the

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levers of power usually reserved for the head of the opposition and chair of the second strongest party in the parliament. The speaker's chair in the Lower Chamber has been occupied by CSSD's Miloslav Vlcek largely because Paroubek overplayed his hand during the negotiations following the inconclusive elections of June 2006. Vlcek, whom Paroubek envisioned merely as a placeholder, has shown no intention of vacating the job in favor of Paroubek. Even if Vlcek would agree to go, Paroubek would need the support not only of his CSSD and KSCM, but also of a few MPs from the other side of aisle.

¶11. (SBU) Paroubek has signaled that he is willing to bargain for this support, offering the Topolanek government a cease-fire before and during the Czech presidency of the EU in the first half of 2009.

Such a deal could ultimately include more than just CSSD cooperation on a smooth EU presidency, but also missile defense (MD), for example. The MD agreements' passage through the parliament will most likely depend on some level of support from Paroubek's CSSD, since the ODS cannot count on full support from its coalition partners. As unlikely partners as Paroubek and Topolanek may appear, Czech politics has made for stranger bedfellows in the past, so a deal between the two rivals is not unlikely. A well-placed Czech senator recently told us that "Paroubek is a

businessman and he will listen" to an appropriate offer from Topolanek.

Comment

¶12. (SBU) As the CSSD-led coalition government showed during the period 2002-2006, even a coalition with a razor-thin margin in the parliament can survive and govern. Topolanek's three-party coalition seems to be gelling into a more coherent group, although many of the internal tensions remain and will erupt periodically, as they have with Kuchtova's firing. The Greens will continue to be the weakest link in the coalition because of their internal divisions, but also because of their rather serious programmatic differences with the general ODS direction, whether it be on defense policy issues such as MD or energy.

¶13. (SBU) Therefore, Topolanek will probably need help not just from the two CSSD renegades who have kept his government in power, but also from others in Paroubek's party. Paroubek is ready to deal, as the trial balloon he floated early in October demonstrates. That Topolanek did not reject the offer out right may signal that he is open to explore the possibility. Topolanek would also now be negotiating from a better position. He managed to keep the coalition together through the uncertain early months and then during the controversial tax and public finance reforms. Despite the occasional Green wobble, we therefore expect the coalition to survive at least through the Czech EU presidency in 2009. Paroubek clearly shares this expectation since the proposed deal was billed as something that would give the government the necessary political space to undertake a successful EU presidency.

¶14. (SBU) In addition to the EU presidency and the parliamentary vote on missile defense, which we now anticipate sometime in the spring 2008, the Topolanek government will face several other challenges in the near term, including votes on the budget and foreign deployments. We expect that Topolanek will be able to push these through the parliament even without a prior deal with Paroubek. However, some arrangement will be required before the missile defense vote. What will be key for Czech politics is to what extent the possible deal will aim at constructive cooperation on important foreign policy issues facing the Czech Republic rather than becoming another step backward with regard to government transparency and accountability.

GRABER